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SUBJECT: France: Telecom and Information Technology Update

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[1](#). This is another in a series of periodic updates on the French telecommunications and information technology sectors, including internet and e-commerce.

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[2](#). France Telecom preparing for difficult 2006: According to recent reports, the 2006 outlook for France Telecom (FT) appears bleak. After a poor finish in 2005, FT was forced to admit a slow two to three percent annual growth rate, similar to previously poor performances. In late January, FT shares fell more than 8% in one day, erasing a staggering five billion euros off its market value. The slowdown is attributed to disappointing results from FT's Polish subsidiaries and the rise of competitors in the new emerging market for bundled high-speed services. While facing this rise in competition, FT is confronted with a technological revolution. Competitors are gaining in the telecom sector by offering low prices for unlimited VoIP telephone, cable, and high-speed Internet access, but fierce competition is not the only factor devastating France Telecom. FT and its mobile phone unit Orange also took a hit after numerous fines and regulations in recent months. Nearly 600,000 France Telecom customers left the company and opted to use its competitors, slowly breaking down FT's monopoly. The competition among telecom operators benefits consumers with lower prices, but damages operators due to weak profits or losses resulting from the high cost of providing these new services. To find new sources of revenue, FT plans to unveil high-speed services using fiber optic technology. FT will also simplify its services and integrate its networks under Internet-protocol technology. Additionally, FT is making bundled mobile and fixed-line services available to consumers in a complete package deal in part to discourage them from seeking services from other operators.

[3](#). Bad results followed by management shake-up: France Telecom Chairman and CEO Didier Lombard has appointed a streamlined management team with a new finance chief, according to a January 30 release. Without mentioning the current Chief Financial Officer by name, the release says that Gervais Pelissier will take responsibility for group finance. A source close to Lombard acknowledged that the current CFO would leave the company. France Telecom also said Louis-Pierre Wenes has been appointed head of "group transformation and French operations." The two men will be part of a nine-person "group management committee" chaired by Lombard which will include among others Sanjiv Ahuja, chief executive of mobile phone unit Orange. The release said Wenes will lead all the group's activities in France, including Orange's business in France. FT's CFO was widely regarded as in the hot seat after France Telecom issued a revenue warning for 2005 and a profit warning for 2006. This came after analysts and fund managers had questioned the company's method of communicating news about its finances throughout the second half of 2005. FT stock is down 10% since the beginning of the year after having fallen 14.5% in 2005.

[4](#). ARCEP raps France Telecom's knuckles over convergent offer: French national telecom regulator ARCEP has warned

France Telecom that it must fulfill its obligations with regard to convergent offers. The warning follows France Telecom's launch of its "Family Talk" offer in June 2005, which allows unlimited calls, for a flat monthly rate of 39 euros, between a fixed telephone and three Orange mobile phones within the same family. Before the offer was launched, FT obtained approval from ARCEP for only one part of it, namely unlimited calls from a fixed telephone to three mobile numbers for 30 euros. After this, the operator changed the offer to include calls between Orange mobiles.

15. French bargain hunting drives record e-commerce sales: For 2005, online sales reached a record seven billion euros or as much as 10 billion euros counting online financial services, according to figures published on January 12 by ACSEL, a French e-commerce Association. E-commerce in France attracted 9.3 million internet shoppers and continues to grow thanks in large part to the increasing amount of internet users with high-speed access. Online auction sites like eBay.fr and PriceMinister.com, which allow transactions between individual Internet users, gained two million French visitors in 2005. According to one recent survey, over one million novice internet users in France plan to make a purchase online. (Note: The strong French tendency to use debit rather than credit cards has led to more consumer reluctance here to shop online, since the financial burden of disputed transactions falls more on customers than vendors. End note.) There has been a marked increase in online shopping during this year's annual winter sales where French retailers are allowed to offer dramatic discounts to shoppers. In France, the Finance Ministry has strict regulations for discounting retail merchandise allowing only two annual sales, each with a limited six-week duration. Online sales are expected to bring in sales 30 to 40 percent higher than average. So, this long tradition of twice yearly sales is clearly migrating to the online shopping world with French consumers eagerly looking for even steeper discounts on their favorite e-commerce sites.

16. Chirac promotes Quaero to rival Google in transatlantic competition: French officials at the highest levels appear to be squarely behind the Franco-German search engine project, Quaero, to be launched in late-January or early-February. In their eyes, Quaero will not be the equivalent of Google or Yahoo, but rather an exercise in promoting and coordinating European innovation and R&D "to attain industrial objectives determined by the project ... within each industrial strategic framework." Part of the Quaero initiative, Exalead.com expects to have four billion documents indexed by the end of January, and to exceed eight billion within six months. Soon, Exalead will also add advertising to its site. Quaero's rivals have a huge head start: 87.9% of French search engine users use Google, according to Mediametrie. Only 9.8% claimed to use AOL, according to a survey by Exalead. Additionally, Quaero must keep up with the creation of new functions and services (Google News, Google Maps, Google Earth, Google Print, etc.) In support of Quaero, President Jacques Chirac said that France should move rapidly to combat technology industry giants, such as Google and Yahoo, saying that Quaero would create a new internet search "geography" of knowledge and cultures, noting that "Tomorrow, that which is not available online risks of being invisible on a worldwide scale." Moreover, Chirac criticized Microsoft, saying that MSN's search technology was inferior and was not considered a rival. Quaero was developed by a European group formed by Thomson, France Telecom, and Deutsche Telekom, with the apparent objective to create a Quaero-Google rivalry that will parallel the Airbus-Boeing rivalry.

17. American court deals Yahoo's French case a setback: An appeals court in the U.S. has handed Yahoo a set back in a ruling that supports French anti-racism associations. A French court ruled in 2000 that Yahoo had to remove Nazi items from its U.S.-based auction site. The recent American court ruling supports the French ruling as it applies to Yahoo. French human rights groups requested that Yahoo block French users from accessing the Nazi content on the American site and Yahoo responded that this was impractical. The French court exonerated former Yahoo CEO Timothy Koogle of responsibility for providing links to now-defunct internet auctions of Nazi paraphernalia, but ruled that Yahoo would have to pay 15,000 euros a day in fines, an amount that now has accumulated to millions of dollars. The American judges, however, doubt that France will demand collection of the funds. Still, the news of the recent American court ruling led one local paper to feature the headline "The Triumph of French Law."

18. French regulator and GOF officials headed to the U.S.: In separate meetings, ARCEP and Industry Ministry officials have expressed their intention to travel to the U.S. in April and June. Appointed to the job in late-2005, Emmanuel Gabla replaced Emmanuel Caquot as head of the Industry Ministry Service for Technology and Information Society. During a courtesy call with EB/CIP DAS Ambassador David

Gross, Gabla said that he hoped to organize bilateral meetings in Washington in April 2006 at State, Commerce/NTIA, DOJ as well as with telecom industry representatives. Gabla hoped to include an ARCEP commissioner on the trip, possibly Gabrielle Gauthey. Given Gabla's keen interest in elections and other issues for the upcoming ITU plenary, we suspect that this would be a key topic of their visit. Separately, an official in ARCEP's office of international affairs said that ARCEP President Paul Champsaur hopes to travel to Washington in June 2006 for meetings with FCC Chairman Kevin Martin and others, possibly during the week of June 12.

9. French editors to protest Google's copyright infringement: In late January, French daily Le Figaro reported that several French editors are ready to sue Google for copyright infringement now that Google has scanned French books to put on-line. The growing concern of French publishing houses that Google has digitized excerpts from hundreds of French books without authorization led to the report. The Google initiative has French editors contemplating building a European Digital Library. French editors are dubious of Google's intentions as well as its assertions that the initiative aims to "promote culture and books." Brice Amor, head of the legal department at Gallimard publishing, said "Of course we are going to react! It's infringement! We aren't going to just sit here!" saying that numerous works from Gallimard are already being infringed through digitization. Serge Eyrolles, president of the National Editors Union (Syndicat national de l'edition SNE), explained that book excerpts are only allowed if they do not exceed a paragraph. He also indicated in September that if Google digitizes French authors without permission, the editor in question would sue and SNE would support and join them in such a lawsuit.

10. Le Monde criticizes "Hypocritical Google": In late January, French daily Le Monde devoted a front-page article and an editorial to Google's practices in China which seek to avoid a confrontation with the government by restricting access to e-mail, chat rooms and blogs. The editorial, entitled "Hypocritical Google" notes that "In the U.S. Google has butted heads with the Bush Administration to defend civil liberties, something neither Microsoft's MSN, AOL nor Yahoo has done ... While the Bush Administration is the object of growing criticism with regard to civil liberties, Google's refusal to provide data on the searches done by the users on its site to the Justice Department ... made it the national champion of civil liberties in the U.S. It only took a few days for Google to undo this image" The editorial emphasized that "In order to conquer the Chinese market with its 111 million Netsurfers... Google has agreed to censor itself. Expressions such as 'Human Rights' or 'Independence for Taiwan' automatically lead to a page on the official party line." The editorial ended by noting sarcastically "in Google's defense" that the company's policy is to "adapt to the country it finds itself in ... This means that it resists in the U.S. and caves in China. This is hypocrisy."

11. ARCEP introduces new 09 phone number prefix: In response to growing telephone usage and the development of new services, ARCEP has made way for a new range of telephone numbers in France. The new telephone numbers are expected to aid in the development of new high-speed services offered by operators and service providers. Ten million phone numbers beginning with 097 will be made available for non-geographic interpersonal communication services, hoping to create a positive association with innovative, low-cost services and the telephone prefix. Additionally, the new numbering system should not disrupt current French telephone numbers. The numbering will remain organized by geographical location 01-05, with 06 as the prefix for mobile phones, and access to value-added services beginning with 08. (Note: When calling from outside France, the zero is replaced with country code 33.)

12. French mobile operators oppose ARCEP's SMS price proposal: An October 2005 proposal by the French telecom regulator ARCEP to introduce regulations and halve wholesale prices for short messaging services (SMS) has won the support of the consumers' association Afutt, but has drawn criticism from France's three mobile operators. They argue that the regulator has not proved the existence of any problems with regard to competition on the market. They also say that, overall, SMS prices in France stand at or below the European average, a claim which ARCEP challenges by noting that the mobile operators have not cited verifiable sources. Mobile operator SFR has said that the margin on SMS enables companies to offer generous subsidies on telephone prices, while rival Orange has said that the loss of income for the operator should ARCEP's wholesale price cuts come into force would have to be recouped through

a price increase on another service, and that consumers would therefore not benefit. The France Telecom subsidiary also made the argument that a marked reduction in SMS charges would lead to an increase in spam messages, the content of which could pose a problem with regard to the protection of young users.

Stapleton